

Message Text

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C O N F I D E N T I A L MOSCOW 11417

E.O. 11652 GDS

TAGS: EGEN ETRD UR

SUBJ: AMBASSADOR'S CALLS: L.A. KOSTANDOV

1. SUMMARY: DURING INTRODUCTORY CALL JULY 22, CHEMICAL INDUSTRY MINISTER LEONID A. KOSTANDOV EXPRESSED EXCEPTIONALLY POSITIVE APPROACH TO TRANSACTIONS WITH AMERICAN FIRMS. KOSTANDOV COMMENTED THAT ONCE ICE HAS BEEN BROKEN AND TWO SIDES HAVE ESTABLISHED UNDERSTANDING OF EACH OTHER'S GOALS, NEGOTIATIONS ARE STRAGIGHTFORWARD, AND "IT IS EASY TO WORK WITH US COMPANIES." IN RAPID SURVEY OF PENDING PROJECTS, KOSTANDOV INDICATED HE EXPECTS SUCCESSFUL CONTRACT NEGOTIATIONS IN NEAR FUTURE WITH PPG INDUSTRIES, AMOCO AND C.E. LUMMUS. END SUMMARY.

2. LIVELY, ENERGETIC AND CORDIAL, AFTER EXCHANGE OF CUSTOMARY PLEASANTRIES KOSTANDOV OPENED CONVERSATION BY COMMENTING HOW MUCH HE HAD ENJOYED HIS RECENT VISIT TO THE U.S. HE STATED THAT THE BASIC CONDITIONS FOR CONCLUSION OF THE RECENT CHEMICO AMMONIA CONTRACT (MOSCOW 8993) HAD BEEN AGREED DURING TRIP AND COMMENTED THAT HE PERSONALLY HAD WANTED TO SIGN THAT PARTICULAR DEAL WITH THE KELLOGG DIVISION OF PULLMAN, CONFIDENTIAL

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INC., BUT THEIR PROPOSAL HAD BEEN "UNREALISTIC." HE NOTED

IN PASSING THAT KELLOGG WOULD NEVERTHELESS HAVE A PART OF THE COMPLEX THROUGH ENSA (MOSCOW 10772).

3. REFERRING TO HIS FIRST VISIT TO AMERICA IN 1969, KOSTANDOV NEXT REMARKED THAT HE PARTICULARLY ENJOYS WORKING WITH U.S. FIRMS. HE FINDS IT EASY, AND HE FEELS THAT IF THERE IS PROBLEM IN DEVELOPING CONTRACT OPPORTUNITIES BETWEEN SOVIET AND AMERICAN ORGANIZATIONS, "IT IS BECAUSE YOUR COMPANIES DO NOT YET KNOW US. IT HAS TAKEN ME FIVE YEARS OF HARD WORK TO FORM ACQUAINTANCES AND TO BUILD CONFIDENCE BETWEEN US. WHEN I FIRST VISITED THE US IN 1969 I WAS ESCORTED THROUGH (OR REALLY, AROUND) ONE PLANT BY BUS--I NEVER LEFT THE BUS, AND MY HOSTS SIMPLY POINTED OUT ONE BUILDING AFTER ANOTHER AS THE PLANT WHERE SUCH-AND-SUCH A PROCESS WAS CARRIED OUT. SINCE THAT TIME, OF COURSE, MUCH HAS BEEN DONE AND WE HAVE MOVED FORWARD A LONG WAY TOGETHER."

4. AMONG PENDING TRANSACTIONS WITH AMERICAN FIRMS KOSTANDOV INDICATED MOST URGENT AS TWO PROJECTS MINISTRY HAS BEEN NEGOTIATING WITH PPG. ONE, TO BE LOCATED EITHER AT ORENBURG OR IN TURKMENIA, WOULD INVOLVE A POLYMER COMPLEX UTILIZING THE PRODUCTION PROCESSES EMPLOYED IN PPG'S PLANT AT PONCE, PUERTO RICO, BUT FOUR TIMES LARGER. SECOND PPG PROJECT UNDER DISCUSSION ENVISIONS CONSTRUCTION OF A PLANT FOR WINDOW GLASS AND GLASS/PLASTIC LAMINATES. THIRD PPG PROPOSAL LESS ADVANCED IN PLANNING/NEGOTIATION STAGES IS FOR MINING POTASH THROUGH USE OF WATER AS DISSOLUTION AGENT IN CORRIDORS ADJACENT TO MINE SHAFT. COMMENTING THAT GEOLOGICAL CHARACTERISTICS OF POTASH DEPOSITS IN USSR ARE DIFFERENT FROM THOSE FOUND IN US MINES WHERE THIS PROCESS HAS BEEN APPLIED, KOSTANDOV STATED THAT VARIOUS TESTS WOULD HAVE TO BE CONDUCTED TO DETERMINE APPLICABILITY OF PPG PROCESS TO SOVIET CONDITIONS BUT HE FELT CONFIDENT THAT SOMETHING WOULD COME OF DISUCSSIONS: "PPG PRESIDENT NEUBAUER IS TAKING A RESPONSIBLE APPROACH TO THIS."

5. ACCORDING TO KOSTANDOV, CHEMICAL INDUSTRY MINISTRY IS ALSO NOW NEGOTIATING CONSTRUCTION OF A POLYESTER FIBER PLANT WITH AMOCO, AN ACRYLIC FIBER PLANT WITH C.E. LUMMUS, AND ALLIED CHEMICAL PROPOSALS WHICH MIGHT INVOLVE CONSTRUCTION OF A LARGE CAPACITY CAPROLACTAM PLANT IN USSR. KOSTANDOV
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INDICATED HE WAS NOT CERTAIN WHETHER THE POLYESTER FIBER PLANT WOULD ULTIMATELY BE CONSTRUCTED IN PARTNERSHIP WITH AMOCO OR WITH A JAPANESE FIRM, BUT HE SEEMED MUCH MORE POSITIVE ON LUMMUS CHANCES FOR LANDING ACRYLIC FIBER PLANT CONSTRUCTION CONTRACT, WHICH HE DESCRIBED AS PROJECTED FOR ONE MILLION TON/YEAR CAPACITY, WITH 350 THOUSAND TONS OF PLANT OFFTAKE GOING TO LUMMUS IN PAYMENT FOR CONSTRUCTION WORK. AS KOSTANDOV DEFINED IT, PRINCIPAL PROBLEM REQUIRING RESOLUTION

WITHIN SOVIET GOVERNMENT BEFORE FURTHER NEGOTIATIONS ARE UNDERTAKEN WITH COMPANY STEMS FROM PROPOSAL TO USE OIL AS FEED STOCK: SOVIETS MUST NOW MAKE UP THEIR MINDS WHETHER TO COMMIT PETROLEUM OUTPUT NECESSARY FOR THIS PURPOSE.

6. RETURNING TO HIS MARCH 1974 US VISIT, KOSTANDOV SAID THAT AFTER HE WAS BACK IN MOSCOW PEOPLE ASKED HIM WHAT HAD IMPRESSED HIM MOST, AND HE HAD THOUGHT LONG ABOUT THIS, CONCLUDING THAT SINGLE MOST OUTSTANDING MEMORY WAS WATCHING A TELECAST OF A PRESIDENTIAL PRESS CONFERENCE WITH PRESIDENT FIELDING QUESTIONS FROM VARIETY OF CRITICS WHO WERE "SPITTING IN HIS FACE. THESE PEOPLE HAVE DONE NOTHING FOR THEIR COUNTRY BUT CRITICIZE IT, AND THERE HE WAS BEFORE THEM, THE MAN WHO HAD DONE SO MUCH AND WAS THEN PLACED IN THE POSITION OF HAVING TO TOLERATE SUCH TREATMENT FROM THEM."

7. TO MY OBSERVATION THAT WHILE IT IS TRUE THAT MANY US BUSINESSMEN ARE UNFAMILIAR WITH BUSINESS PRACTICES HERE AND WITH THE SOVIET UNION GENERALLY, IT SEEMED TO US THAT MANY SOVIETS WERE ALSO NOT WELL INFORMED ABOUT THE UNITED STATES, KOSTANDOV REMONSTRATED THAT HE COULD NOT ACCEPT THIS HYPOTHESIS COMPLETELY. HE SAID HE AND HIS COLLEAGUES READ AMERICAN MAGAZINES, EXPECIALLY THOSE DEALING WITH BUSINESS AND INDUSTRY: "WE ARE BETTER ACQUAINTED WITH YOU THAN YOU ARE WITH US."

8. IN HIS REMARKS ABOUT PERSONAL EXPERIENCE WITH VARIOUS US FIRMS, KOSTANDOV REVEALED HIMSELF A PROPONENT OF SIZE. HE NOTED THAT HE HAD ENJOYED DEALING WITH DUPONT BUT WAS SURPRISED AND SOMEWHAT DISAPPOINTED WHEN COMPANY RECOMMENDED THAT CONSTRUCTION OF PROJECT THEY HAD DISCUSSED BE UNDERTAKEN BY JAPANESE FIRM. BUT, HE CONTINUED, "I LIKE DEALING WITH THEM. THEY ARE LARGEST CHEMICAL FIRM IN CAPITALIST WORLD
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WITH MORE THAN DOLS 4 BILLION IN ANNUAL SALES, AND WHILE WE ARE NEARLY THREE TIMES AS LARGE, WE FIND THEM READY TO LOOK AT OPPORTUNITIES FROM VIEWPOINT AND ON SCALE FAMILIAR TO US HERE." KOSTANDOV SAID HE CURRENTLY CONSIDERING PROJECT FOR USSR INWHICH DUPONT AND FRENCH FIRM HAVE BOTH SUBMITTED PROPOSALS; ALTHOUGH FRENCH TERMS MAY BE SOMEWHAT BETTER, HE FAVORS MAKING DEAL WITH DUPONT BECAUSE IT WOULD MARK A "BEGINNING" WITH THIS IMPORTANT FIRM WHICH COULD LEAD TO OTHER THINGS.

9. IN REPLY TO MY QUERY, KOSTANDOV RESPONDED THAT IT WAS ESSENTIAL THAT THE MAJOR PROJECTS IN WHICH HE EXPECTS FOREIGN PARTICIPATION GO INTO THE NEXT FIVE-YEAR PLAN. CONVERSTATION CONCLUDED WITH OBSERVATION THAT WE HAVE ALREADY COVERED IMPORTANT GROUND TOGETHER AND BRIGHT PERSPECTIVE FOR

FURTHER COOPERATION GIVES REASON FOR OPTIMISM IN FUTURE.
STOESSEL

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